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**The Importance of the Southern Common Market (MERCOSUR) in the Latin American  
Integration Processes in the 20<sup>th</sup> and 21<sup>st</sup> Centuries**

Ph.D. Dissertation Theses

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## **I. Introduction<sup>1</sup>**

During the last decades more and more attempts have been made on the part of Latin American countries to participate in the global economic and trade processes just as well as to maintain their international relations within the region. Several regional bodies to support co-operation came into being during the 20<sup>th</sup> century, the best-known of them are the ALADI (Latin American Integration Association), the ALALC (Latin American Free Trade Association), the ALCA (Free Trade Area of the Americas, which is in formation, actually, and includes North America, too), the CARIFTA/CARICOM (Caribbean Free Trade Association/Caribbean Community), the MCCA (Central American Common Market), the CAN (Andean Community), the ALBA (Bolivarian Alternative for the Peoples of America), and the MERCOSUR (Southern Common Market). By creating or reinforcing these organizations of integration, the peoples in the different regions of Latin America are attempting to meet the actual challenges of world.

In most cases, the literature on the Latin American regional processes published in Spanish, English, Portuguese, French and German or Italian does not reach the Hungarian audience, therefore, the present social and economic situation in Latin America – with special attention to tendencies in the international free trade and economic integration – still remain unknown for Hungarian experts, who, in many cases, can only rely on newspaper articles, which often provide limited information and are tricky phrased. This piece of work will hopefully ease this situation or at least will become a useful source of information by introducing and analyzing a part of the latest literature on the topic.

The purpose of this writing is to bring the examined field, namely the situation of MERCOSUR in the 20<sup>th</sup> and 21<sup>st</sup> centuries, its economic characteristics and its trade relationships within Latin America closer to the readers with the help of the methodology of social geography and integration geography.

The author's more than five years of personal experience, studies and work in Latin America (from 1997 to 2003 in Colombia, one of the associate member states of the MERCOSUR) are supposed to enhance and color the scientific results of his research work and help him to offer a realistic and authentic „first hand” view on the examined field while insisting on the complete and scientific character of his approach.

## **II. Hypotheses**

As for the results of my investigation, beforehand I formulated the following hypotheses:

a. Regarding the period from 2002 to 2008, I do not expect remarkable changes in the proportional rate of trade either among the MERCOSUR countries or between MERCOSUR and other countries of the world. This presumption is based on the fact that, regardless of the European Union and, to a certain extent, of the NAFTA (North American Free Trade Agreement), the international economic integration processes, including, among others, the ASEAN (Association of Southeast Asian Nations) or the Andean Community (CAN), etc., the integration among the member states has been realized to a rather low degree, which is reflected in the regarding data. It is true especially for Latin America during the 1960s and 1970s well reported in KÁDÁR's work of 1977. On the basis of earlier and actual statistics on international economic integration processes I do not find it likely that the degree of the integration among MERCOSUR countries shows a significant change during the investigated period.

b. In spite of it all, I am firmly convinced that the results of my investigation will reveal the (economic, commercial, and political) stabilizing role of MERCOSUR in the region. I suppose that the results of my investigation will prove that the MERCOSUR is able to play the role of the

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<sup>1</sup> The present dissertation was translated from Hungarian to English by the author and Adrienne Dobóczy PhD student. The text was revised by Adrienne Dobóczy.

counterbalance to North America, and the Southern Common Market can defend its own interests particularly against the ALCA, initiated by the USA, at least between 2002 and 2008, i.e. exactly during the period investigated here.

c. In respect of the outlook for the future of the MERCOSUR, I suppose that the Southern Common Market – although it has an enormous effect on Latin American countries and their economies – will not be able to realize full trade and economic integration in Latin America as envisaged by ALALC and then by ALADI (numbering 12 Latin American countries) several decades earlier. This supposition is based on a doubtlessly skeptical but definitely realistic point of view.

d. At the same time, I also suppose that the activity of the MERCOSUR strengthens the integration process in South America, and it will assist the countries of the subcontinent in realizing international economic integration in the near future.

### **III. Objectives**

The aim of this investigation is to present the Southern Common Market (MERCOSUR), one of the determining economic organizations in Latin America in the 20<sup>th</sup> and 21<sup>th</sup> centuries. On the basis of the available literature and data, I examine its relations developing along with international regional economic processes inside of American continent. The purpose of the present investigation is to answer the following questions:

- How have the relations among the member countries of the MERCOSUR been developing since the signing of the Iguazú Act in 1985?
- What are the achievements and the failures of the almost twenty years of the MERCOSUR?
- How can the trade relations of MERCOSUR between 2002 and 2008 be characterized?
- What is the role of the MERCOSUR in the Latin American integration in the 20<sup>th</sup> and 21<sup>th</sup> centuries?
- How can the development of the relations of the MERCOSUR with other Latin American economic integration organizations and with ALCA be characterized?

### **IV. Methods**

In my work I have analyzed the results of the corresponding research work and literature published earlier, giving preference to English and Spanish language literature. I have also used the possibilities offered by the internet, the official web sites of the involved organizations, which provided me with the most recent information in some specific matters.

As for Hungarian researchers, I have thoroughly surveyed the literature written by Béla KÁDÁR, András INOTAI and Rezső MÉSZÁROS as all of them have been to several Latin American countries and they know the economic integration processes taking place there.

I have also used and analyzed statistical data collected about the examined countries. Consulting the website of the central statistics office of each country and that of the international organizations in the region I have obtained some completely new information about the countries in question and the whole of Latin America. To avoid one-sidedness, I have used information from different statistics databases in the USA, especially from the material of the CIA.

I have analyzed the trade of the member states of the MERCOSUR based on the data found on the website of the Centre for International Economy (CEI) linked to the home page of the Argentinean Ministry of Foreign Affairs. I have chosen this website as the main source of data because it is the database which offers the most complex and authentic data on international trade among the MERCOSUR member states and the MERCOSUR with other countries between 1991 and 2008 of all available Spanish language literature. I have also visited the website of the

central statistics office and/or the ministry of economy or the ministry of foreign affairs of some of the involved countries to clarify issues that emerged during my investigation. However, my main conclusions are based on the CEI statistical data. The principal objective of this organization is to provide the Ministry of Foreign Affairs of Argentina with studies, analyses and information about the state of international economy and trade with special attention to the economy of MERCOSUR member countries. These data and analyses are available for researchers, universities or other NGOs in the library of the center in Buenos Aires or from its official website.

My work has also been supported by the staff of library of the Javeriana University in Bogotá where I was granted master degree in International Relations a couple of years ago as they have collected the most recent information, data and literature (printed and digital versions) for me.

## **V. Results**

### **1. New regionalism in Latin America**

At the moment there are more than one hundred international regional processes underway in the world. They are in different phases and developing between states or governments (ROSAS, 2001), and they are mainly of economic and/or political character.. In my investigation the aspects of economy will play the main role, more precisely, within the field of international regional economic processes (between states) I will deal with the process of the Latin American international economic integration.

The new regional processes in Latin America often meant the mere reconsideration of the regional integration initiatives started several decades before. However, in certain cases, such as in the case of the creation of the MERCOSUR, completely new integration that had not existed before was initiated.

The debt crisis in 1982 made it clear that the economic model of substituting the imports would not work either on the national or the international level. Latin American countries gradually started to apply the neoliberal economic and political model, which was based on the priorities of the International Monetary Fund (with the interests of the USA behind it), among them, for instance, export oriented production, which was one of the instruments to pay the debts back. As we will see later, this effort was not the proper way to address the problems, especially not for the countries in debt.

Along with these changes starting in the mid 1980's, a new type of economic integration of the Latin American countries could be witnessed. This period can be interpreted, on the one hand, as a regional level answer given to fact that the ways the GATT and WTO had promoted multilateral free trade failed; and, on the other hand, as the admission of the failure of the „international regional protectionism” based on protectionist economic politics. At the same time, the end of the cold war brought détente in the relations of Latin American countries with each other as well, this way it became possible to come closer to each other in the field of diplomatic, economy and trade, while the global atmosphere of détente formed the background in front of which the new integration processes could emerge.

In an international environment like that, to some extent encouraged by the signing of the Argentinean - Brazilian convention in 1985 (the antecedent to MEROSUR), several international economic integration processes were completely reformed and/or the integration organizations realized internal reforms (BOUZAS, 2005; ROSAS, 2001). It is worth mentioning that the AP (Andean Pact) was renamed Andean Community (CAN), stressing that this new name indicated a profound restructuring. Some very important structural changes were realized in CARICOM (Caribbean Community) as well, as it was enlarged by two new members: Suriname and Haiti. The changes of the 1990s also influenced the Central American Common Market (MCCA).

On the one hand, the international regional processes creating preferential customs areas can be criticized for, among other phenomena, allowing transnational companies and capital flow

(concentrated in developed countries with economic and financial power) to become protagonists in these processes and for so escalating the economic instability within America and strengthening the division between the two parts of the American continent: the well developed North (the USA and Canada) and South, i.e. Latin America. On the other hand, the newly formed preferential economic areas continued to sound openness while they granted to third countries unilateral reduction of tariffs. Consequently, the discrimination against third countries still remained. This kind of politics deepened the defenselessness of the Latin American countries in their relations with the international financial organizations, and the international regional market in Latin America became an area to expand their finance and trade to for developed countries. This way the stratification of the world economy continued to strengthen influence by the TRIÁD, the three great economic centers of the world (TÓTH, 2002).

In these international circumstances new types of regional processes emerged in Latin America. Among them the MERCOSUR was established first and it is still the most important one, and so the subject of my dissertation.

## **2. The four phases of the development of the MERCOSUR**

During the last two decades the Southern Common Market (MERCOSUR) has become, beside the NAFTA (North American Free Trade Agreement), the most determinant international economic block on the American continent, although it is very far from the NAFTA in geographical and cultural sense as well. The members of the MERCOSUR are the following: Argentina, Brazil, Paraguay, Uruguay and Venezuela. The objectives of the organization are to promote free trade, and the free movement of goods, citizens and capital among the member states. The member states also targeted deeper political integration and wider cultural relations among themselves and with associated countries. The countries associated to the MERCOSUR are Bolivia, Chile, Ecuador, Colombia and Peru, and the only observing country is Mexico. The MERCOSUR countries occupy nearly 13 million km<sup>2</sup> of territory altogether. According to data from 2009, their population is about 230 million. The GDP is 3.009 thousand million USD (2009). The official languages are Spanish, Portuguese and Guaraní.

On the basis of the used literature the history of the MERCOSUR can be divided into four phases:

### **a. Antecedents (1985-1991)**

The Iguazú Act (1985) signed by Argentina and Brazil was the immediate antecedent to the establishment of the MERCOSUR. The Iguazú Act settled the framework of a bilateral economic cooperation between the two South American great powers. The Act was signed by the presidents José Sarney and Raúl Alfonsín. At that point of time political overtures also began through the PICAB (Argentina-Brazil Integration and Economic Cooperation Program). Not too much later, in 1988 Argentina and Brazil concluded the TICD (in Spanish: Tratado de Integración, Cooperación y Desarrollo entre la República Argentina y la República Federativa del Brasil) with the purpose of the gradual creation of a free trade area during the following ten years. In the next stage the two countries targeted the realization of a binacional common market. As the final stage of the first phase in the integration, the Act of Buenos Aires was signed in 1990. In this act they brought the creation of the common market to 1995. The two participating countries intended to achieve this objective by the continuous and automatic liberalization of trade and by the creation of a common external customs system.

### **b. The “golden age” (1991-1998)**

The actual birth of the MERCOSUR can be dated to 1991, when - within the framework of the ALADI (Latin American Integration Association), widely known as an “umbrella agreement” (ROSAS, 2001) - the Treaty of Asunción was signed by Argentina, Brazil, Paraguay and Uruguay. The previous methodology of “gradual opening” to be realized sector by sector was replaced by the neoliberal idea of the complete commercial opening in the era of the presidents *Carlos Menem* in Argentina and *Fernando Collor de Mello* in Brazil. The countries that signed the Treaty of Asunción bound themselves to a trade liberalization programme, the co-ordination of macroeconomic policies, a common external tariff and the adaptation of sectoral agreements, besides the creation of a permanent institutional structure. These objectives to be achieved by 1995 by the elimination of non-tariff restrictions or equivalent measures and by the protection of the products listed in the trade liberalization programme are in full accordance with the ten broad sets of recommendations of the Washington Consensus (GENEYRO-VÁZQUEZ, 2007). The elimination of tariffs and the introduction of a common external tariff were partly realized successfully by 1995 as planned earlier. The common external tariff was involved 85% of the imported products at the time.

c. The phase of the crisis (1999-2002)

Starting with the year of 1999, an economic depression could be observed in the MERCOSUR. The crisis touched bottom in 2001/2002 when a financial crash occurred in Argentina. It all meant the starting point of a new era in the history of the MERCOSUR. It became obvious that the neoliberal integration model of the 1990s – which was the ideological background of the creation of the MERCOSUR in 1991 – did not work out. In contrast to the initial expectations, the MERCOSUR, having an Argentinean-Brazilian coalition within the organization, had not reinforced the “complementary” character of integration but the “competing” one (specifically, in the sectors of food production, the automotive industry, the timber industry and footwear production, among others). From the very beginning of the crisis the danger of disintegration was imminent for the MERCOSUR (RAPOPORT-MUSACCHIO, 2006).

d. After 2003: reforms, consolidation of political alliance, and the membership of Venezuela

As a result of the crisis, the previously applied model of the CEPAL, i.e. the substitution of imports, was exerted again, bearing another name: new “desarrollismo” (GRATIUS, 2008).

Moreover, the elections in Argentina and Brazil (2003), then in Uruguay (2004) were followed by a political, social and institutional recovery. The latter meant that some of the existing institutions were reformed while some new ones were established. The new institutions included the Arbitration Committee of Asunción, or the Committee of Permanent Representatives.

*“WE RATIFY our profound conviction that the MERCOSUR is not only a commercial block, but it also creates space catalysing value, tradition and a common future. Therefore, our governments will continue to work on strengthening it by the means of perfecting its commercial and political institutions and the incorporation of new members.”* (GENEYRO-VÁZQUEZ, 2007, p. 40)

On the other hand, the importance of the MERCOSUR further increased on the international level when Venezuela joined it in 2006. As for the internal processes of the MERCOSUR, this enlargement shifted the stress to political and energetic issues.

Figure 1: The MERCOSUR member states (black) and associated countries in 2009; and Mexico as an observing country. (Designed by: G. Molnár – L. Kálmán)



### 3. A summary of trade among MERCOSUR member states (2002-2008)

In my investigation I have focused on the detailed examination of the achievements and failures of the individual economy in each member state and those of trade among them (within the MERCOSUR) in a seven years' period (2002-2008). I have found this period interesting as it involves the recent past and exiting as it immediately followed the four years' (1999-2002) of economic and fiscal crisis in the region. Although during the period of between 2002 and 2008 some economic problems arose in the member states, it can be interpreted as an era of economic prosperity. On the basis of the WTO INTERNATIONAL TRADE STATISTICS (2003) data, the volume of the internal trade of MERCOSUR reached 20 843 million USD in 2002, 13.5% of the total trade volume of the member states together. The volume of trade with third countries was 130 204 million USD, 86.5% of the total trade volume of the member states together. During the examined period the volume of the total trade of the MERCOSUR multiplied while the proportion of internal trade hardly changed, just like the proportion of trade with third countries. In spite of the economic prosperity during the analyzed period, in 2008 the MERCOSUR internal trade came up to only 15% of the total trade. It meant a moderate growth of 1.5% since 2002. Consequently, the trade with third countries dropped back to 85%, 1.5% less then in 2002 (LUCÁGELI-SANGUINETTI-ZAMORANO, 2009).

On the basis of my own calculations executed using the data of the official on-line MERCOSUR statistical database at <http://www.cei.gov.ar/html/mercosur.htm> (2009), these rates must be correct. In 2008 the volume of the internal trade in MERCOSUR reached 91 427 million USD and the trade with third countries came up to 518 747 million USD.

In fact, with respect to the proportion of the internal trade to the external trade, the MERCOSUR falls behind some other economic integration organizations. For instance, the same proportion in the NAFTA (USA, Canada, Mexico) is 51% to 49%, in the case of the ASEAN (Association of Southeast Asian Nations) it is 25% to 75%. As an integration model, the EU produces the best proportion: 68% to 32%. At the same time, some other integration organizations in the periphery of world economy have achieved much less. For instance, the above mentioned proportion in the CAN (Andean Community) is mere 8% to 92%. As for African countries, this proportion is 10% to 90% (UNITED NATIONS, 2009). These numbers offer a base on which the degree of the integration in question can be judged, and show that the position of the MERCOSUR



is somewhere in the middle of the field.

The internal trade of the MERCOSUR is based on the Argentinean-Brazilian commercial relations, which remained the main determinant within the MERCOSUR during the analyzed period (2002-2008). In 2008 the volume of trade between these two countries reached 30 935 million USD according to Argentinean sources and 30 863 USD according to Brazilian sources. This number equals to 30% of the internal trade of the MERCOSUR.

With respect to the sectorial composition of the Argentinean-Brazilian trade relations, Argentina exported great volumes of raw materials and agricultural products to Brazil. The most important items of them are crude oil and wheat. Industrial products of more value added also have notable share. The available data regarding the year of 2003 show that the composition of the Argentinean exports to Brazil is the following: 20% cereals, 13% automobiles and automobile components, 10% chemicals, 8% refined fuels, 7% products of plastic, 7% electric devices and materials, 6% natural gas, 4% crude petroleum, 4% products of metallurgy industry, 2% vegetables, 19% other products. On the other hand, the composition of the Brazilian exports to Argentina in the same year is as follows: 18% automobiles and automobile components, 17% chemicals, 17% electric devices and materials, 8% products of metallurgy industry, 7%, products of plastic, 7% textile and articles of clothing, 4% stationery, 4% caoutchouc and products made of it and 18% other products (INDEC, 2003). These data indicate the tensions between the two countries for the trade of industrial products, more specifically, for automobiles and automobile components. In fact, did not only exist this problem in 2003 but also during the whole analyzed period. Between 2002 and 2008 both Argentina and Brazil made serious efforts to protect its own industry. Obviously, the industrial products exported by Brazil, which were produced in large quantities and often cheap, jeopardized the Argentinean economy more than vice versa. Also during the 1999-2002 depression one of the component of the crisis was exactly the industrial product, the car and car components. The crisis deepened so much that the danger of the disintegration of the MERCOSUR was imminent during and after the period of the crisis (RAPOPORT-MUSACCHIO, 2006).

It is sugar and the products of automobile industry which are excluded from the internal free trade of the MERCOSUR. The trade of the latter within the organization is regulated by bilateral agreements in order to protect the national market in each member state from the imports from other member states. Argentina and Brazil established a bilateral trade committee with the purpose of watching the tendencies of the trade between them, and to apply adequate mechanisms to protect each market if necessary.

According to previous analyses, Argentina, Paraguay, and Uruguay are the member states which depend the most on the trade within the MERCOSUR. Paraguay and Uruguay are the most import-dependent countries. For these two countries, which are the smallest member states of the MERCOSUR, the most serious problem is the foreign trade of agricultural products with the other member states. It is due, on the one hand, to their structure of economy, i.e. that the most dominant sector is agriculture, especially in Paraguay. There 23.1% of the GDP came from the agriculture and only 17.2% from the industry in 2008. In Uruguay these rates were 9.8% and 32.8%. respectively. On the other hand, the two countries in question appear on the internal MERCOSUR market with very similar product structure: Paraguay offers cotton, sugar cane, soybean, corn, wheat, tobacco, fruits, vegetables, livestock and milk while in Uruguay the most important agricultural products to be exported are wheat, soybean, barley, livestock, beef, rice, and fish. Needless to say that this structural similarity did not help these two small countries to find advantageous trade possibilities within the MERCOSUR between 2002 and 2008.

The exports of the new member state, Venezuela to the MERCOSUR are determined by crude petroleum and its derivatives. Obviously, Brazil and Argentina form the main markets for these products. According to the BANCOEX, Venezuelan exports to Argentina can be divided into two main categories: 1) crude petroleum and its derivatives, and 2) all other products. Between 2002 and 2004, when Venezuela was still a CAN (Andean Community) member state, its exports of crude petroleum and its derivatives to the MERCOSUR came up to only 25.5% of all exportation between 2002-2004. In 2005 the volume of the petroleum export rose to a level 136 times larger

than that in 2004 and dropped back to its previous level in 2006 and remained there. The data of the BANCOEX show that the exports of Venezuelan crude petroleum and its derivatives to Brazil has been growing massively since 2006, when Venezuela joined the MERCOSUR. In 2005 the value of this export was not more than 75 million USD but in 2006 it went up to 405 million USD. The next year it fell back to 325 million USD and it is estimated to reach 783 million USD in 2008. Meanwhile, Argentina and Brazil export agricultural and industrial products to Venezuela. Briefly, Venezuela reinforces its economic position on the market of the two largest countries of the MERCOSUR by exporting petroleum there and importing agricultural and industrial products from there. The membership of Venezuela has opened the door into a huge market for Argentinean and Brazilian products and also contributes to the reduction of the economic isolation of some North Brazilian states like Roraima, certain parts of Amazonas and Amapa. At the same time, Venezuela also was one of the member states which had negative trade balance with the MERCOSUR.

#### **4. A summary of Inter-American relations of the MERCOSUR**

##### **4.1. The relations of the MERCOSUR with the CAN (Andean Community)**

The importance of the relations between the CAN and the MERCOSUR is obvious considering that the two integration organizations include 9 of the 12 South American countries. The population of these 9 countries is 350 million. The achievements of the co-operation between the two blocs, are the free trade zone and the political dialog resulting in mutual associated membership in the other organization.

The starting point of the realization of a free trade zone between the MERCOSUR and the CAN dates back to 1998 when the agreement creating its legal background was signed. In the first phase of the process an agreement on fixed preferential tariffs was signed, and, then, in the second phase the free trade agreement was realized. In December 2002 the member states signed an Economic Complementary Agreement in Brasília. It was a reaffirmation of their intention to realize a free trade zone until 31 December 2003. This agreement was the first one signed between economic blocs. Beyond the abolishing the customs tariffs and all other trading rules having an equivalent effect to customs tariffs, the deregulation of trade and the integration of infrastructure were defined as targets to achieve in the future. The latter was included in the agreement with the intention to promote the integration of markets and to provide the scientific and technological co-operation between the countries of both organizations with a steady base.

In January 2007 Bolivia applied for admission to the MERCOSUR, but some days after the application had been announced, the Bolivian government was harshly criticized and its democratic nature and professional competency were queried (CARIAGA, 2007). However, the admission of Bolivia to the MERCOSUR might open new prospects in the economic and trade relations of the country with Argentina and Brazil.

Peru has been treating Brazil as a strategic partner since 2006. In Peru Brazil is the fourth on the list of key investors in Peru, following the USA, EU and Chile. In 2006 the bridge connecting Iñapari and Assis was constructed, and it has facilitated that Brazil participate in the trade in the area of the Pacific to a greater extent. The two counties are also planning the construction of a 2,600 km long highway between Northern Brazil and the Pacific Ocean via Peru.

The next table (Table 1.) shows in detail the tendencies of trade between each Andean country and the MERCOSUR (in million US dollars) during the period between 1998 and 2007.

Table 1. The commercial relations of Andean Community countries with MERCOSUR (million USD)

Source: CAN, General Secretary, Statistics Office, 2008

Country/Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>CAN total</b>	<b>3 200</b>	<b>2 565</b>	<b>3 283</b>	<b>3 558</b>	<b>4 190</b>	<b>4 355</b>	<b>5 960</b>	<b>8 011</b>	<b>10 762</b>	<b>12 923</b>
<b>Bolivia</b>	746	733	903	973	1 091	1 178	1 670	2 237	3 058	3 593
<b>Columbia</b>	918	781	1 019	1 070	1 074	1 093	1 563	2 096	2 767	3 700
<b>Ecuador</b>	507	278	340	405	655	652	931	1 296	1 499	1 369
<b>Peru</b>	1 029	773	1 021	1 109	1 369	1 431	1 796	2 409	3 438	4 262

During the 10 years' period the volume of trade was multiplied by four between the CAN and the MERCOSUR.

Examining the given data from the aspect of trade balance, we can find that it was negative for the CAN countries, especially for Columbia, Peru and Ecuador during the whole period, plus the deficit was continuously growing. The only exception was Bolivia, which has produced a positive trade balance with the MERCOSUR since 2004, thanks to the exports of hydrocarbons and other ores.

#### 4.2. The trade relations between the MERCOSUR and Chile

In 2007 98.5% of the trade between Chile and the MERCOSUR was free of any customs tariffs. It means that merely 1.5% of the whole trade fell under customs obligations.

The same year the total value of Chilean exports to the MERCOSUR was 4 421 million USD which represented only 7% of the total Chilean exports. At the same time, it is important to mention that 96% of Chilean exports to the MERCOSUR went to the Brazilian (76%) and Argentinean (20%) market.

The Chilean imports from the MERCOSUR reached 9 188 million USD in 2007. This volume represented about 21% of the total of Chilean imports. Chile purchased 49% of its imports from the MERCOSUR from Brasilia and 47% from Argentina.

Thus the trade between Chile and the MERCOSUR deepens the previously mentioned asymmetry within the MERCOSUR: the Brazilian and Argentinean dominancy over Paraguay and Uruguay.

In the year in question the total value of the trade between Chile and the MERCOSUR was 13 609 million USD. 95% of this amount was realized with Brazil and Argentina. 12% of the total Chilean foreign trade was realized with MERCOSUR member states. It is important to mention that, during the analyzed period, there was a significant increase both in Chilean export and import, although the deficit of the Chilean trade has been fluctuating between four and seven thousand million USD in the past few years. Chile has also been facing trade deficits with the MERCOSUR.

The most important products to be exported from Chile come from the mining industry. They have a share of 60% of exports, and copper in itself made more than 50% of the total exports in 2007 and 2008. The next item on the list of the most important Chilean export products comes from the sector of industry with its almost 40% share in 2007. Among these products we can find chemicals, products of iron and steel industry, food and metal mechanics products. The increase of the proportion of industrial products was significant: 19% in 2007 and 35% in the first half of 2008. In 2007 and 2008 the products of forestry and agriculture had a share of only 1-2% in the Chilean exports to the MERCOSUR. Fruits have significant share in the exports in this area.

The Chilean imports of petroleum, natural gas, other fuels and lubricants arriving from Brazil

and Argentina come out at 60% of the total volume of imports from the MERCOSUR. The problem for Chile is that the costs of these products depend on their price on the global market rather than on any kind of agreement. Another third of the total Chilean imports from MERCOSUR is made up by consumer goods. In the last couple of years the volume of the imports of these products has been increasing dynamically: in 2007 it duplicated compared to the volume in the previous year, then in 2008 it grew by 37%. These numbers reflect the effects of Chilean internal affairs on foreign trade.

The ACE 35 agreement between Chile and MERCOSUR was signed in June 2008. The importance of this pact can be measured in the volume of Chilean inversions in MERCOSUR countries between 1990 and 2008: more than 23 billion USD, 41% of which went to the third sector. In 2008 Chile and the MERCOSUR agreed that the products arriving from Chilean free trade areas to the MERCOSUR would be subject to customs tariff reduction in case they comply with rules of origin in the ACE 35 agreement.

### **4.3 The relations between the MERCOSUR and the UNASUR (Union of South American Nations)**

The total volume of the exports of all South American countries tripled between 1994 and 2004, and in 2005 it came up to 305 billion USD, out of which 45 billion USD was realized within the MERCOSUR. The other main markets for South American exports were the NAFTA (North American Free Trade Agreement) and the EU (European Union).

The summit of South American countries in Brasilia in 2000 was a milestone in the history of the integration of the subcontinent as there and then the idea of the ALCSA (South American Free Trade Area) was born. The ALCSA to be planed to compensate the NAFTA and the ALCA (Free Trade Area of the Americas) counted with the CAN, the MERCOSUR, Chile, Guyana and Suriname as participants.

The countries participating in the UNASUR (Union of South American Nations) targeted on the realization of free trade on the basis of the idea of “open regionalism”. This idea was supported by the ECLAC (Economic Commission for Latin America and the Caribbean) of the UN (United Nations) considering it a principally commercial process. At the summit of Brasilia in 2000 the participant countries emphasized the importance of the infrastructure, i.e. the IIRSA (Initiative for the Integration of Regional Infrastructure in South America) program, which offers a vision to connect and not to separate countries by the frontiers. At the same time, obtaining an access to the oceans was considered rather as an opportunity to find the way for exports to other continents than a base to strengthen the South American economic integration on.

On the whole, Brazil has strengthened its strategic position on the continent by initiating South American integration, by focusing on South America instead Latin America and by putting aside – at least for a while – the traditional rivalry with Mexico.

However, around the year of 2000 the most of the South American countries focused on the ALCA (Free Trade Area of the Americas) instead of South American integration. Chile did not apply for membership in the MERCOSUR but signed a free trade agreement with the USA instead. Yet, at the end of 2001 the “Doha Round” of the WTO started. There and then the Latin American countries decided a more remarkable opening than ever in their trade policy. The plans of IIRSA and the “zone of peace” still seemed to be feasible; however, the process of the realization of the previously initiated Unión of South American Nations seemed to have lost much of its dynamism.

That time the IIRSA financially depended mainly on the Inter-American Development Bank (IDB) and the World Bank. Later, the CAF (Corporacion Andina de Fomento) became a main factor in financing the IIRSA. The CAF was founded with the participation of 17 member states in 1968, and now it attracted other banks to invest in the IIRSA targeting stimulate the realization of sustainable development and regional integration. The CAF guaranteed 5 billion USD for those purposes, and more than 1,6 billion was actually paid by the end of 2005. Furthermore, the organization called FonPlata (Fondo Financiero para el Desarrollo de la Cuenca del Plata), which was founded in 1969 by the four countries establishing the MERCOSUR and Bolivia, also takes its

part in the financing of the integration.

Although the Third Summit of South American Presidents in Cusco in December 2004 produced few specific initiatives, it meant the beginning of a new era in the history of Latin American integration as since then we can talk about the South American Community of Nations. It could be the birth of a huge South American community, against the lack of specific initiatives. The vision a united South American continent might help in overcoming the internal difficulties of both the CAN and the MERCOSUR too.

The first summit of the South American Community of Nations (Comunidad de Naciones de América del Sur), formerly referred to as UNASUR), was held in Brasilia in 2005. Among the issues discussed there social cohesion and social justice as well as the achievement of the organization like creating new possibilities of employment, improving the quality of life, the just redistribution of goods, etc. were given special emphasis (MELLADO, 2007).

It would be important to reinforce the social and the environmental aspects, plus to strengthen the idea of taking the relations of South American countries with each other beyond free trade and infrastructural co-operation. They should go much further: as far as the profound co-ordination of production and the whole economy (GUDYNAS, 2006).

In brief, the MERCOSUR and the CAN form the base of the UNASUR. This fact suggests that the economic nature of the organization is just as characteristic as its political nature. Therefore, the success of the UNASUR basically depends on what the MERCOSUR and the CAN are able to achieve in their relations with each other (see 4.1).

#### **4.4. The relations between the MERCOSUR and Mexico**

Mexico took its first step towards the MERCOSUR in 1995 with the purpose of realizing a trade agreement with the organization. At first both involved parties aimed to renegotiate the existing bilateral agreements and to extend their effect. Following the approximation of the points of view, they concluded an Economic Complementary Agreement (ACE 54/02) in 2002. This agreement came to existence within the framework of the ALADI, according to MELLADO (2007), with following purposes:

1. The realization of a free trade zone between the MEROSUR and Mexico.
2. The creation of juridical framework to guarantee security and transparency for the actors of the economy of both countries.
3. The promotion of mutual inversion.
4. To realize economic co-operation.

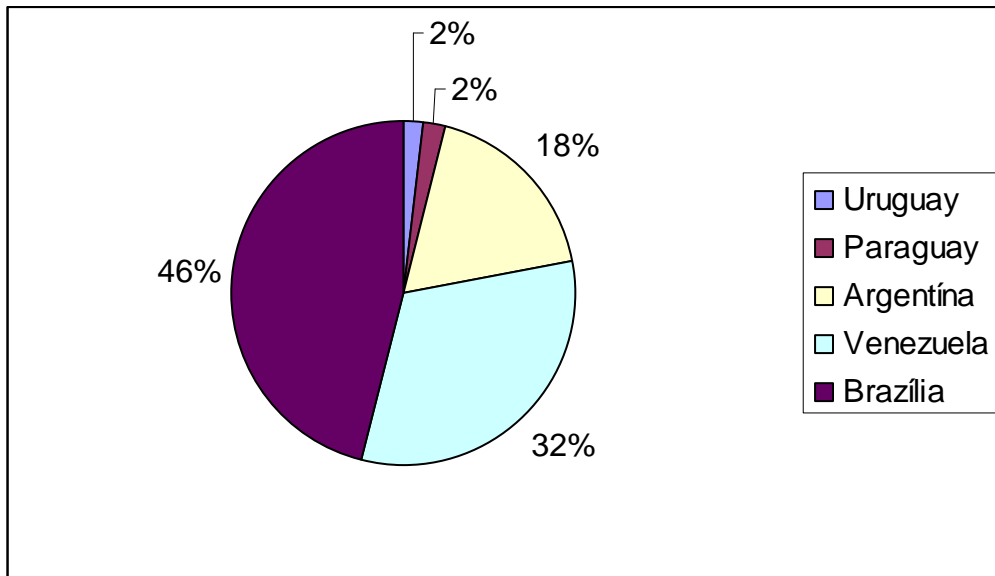
The most interesting one of the above points is the forth. The reason for it is that Mexico and Brazil own the best potential in industry all over Latin America. At the same time, both their volume of industrial production and sectorial structure are very similar to each other making it difficult for both sides to achieve success on the market of the other. Regarding the production structure of the whole of the MERCOSUR and Mexico, the same problems cause difficulties. There are two particularly problematic fields in these relations: first, the Mexican exports to Brazil, second, the tension between Argentina and Mexico because of the Argentinean agricultural products.

The Mexican exports to the MERCOSUR increased more than tenfold between 1994 and 2008. By 2008 Venezuela had become the second most important export partner of Mexico with 2 313 million USD, sharing almost 30% of all Mexican exports to the MERCOSUR. These dynamically developing trade relations between Mexico and Venezuela were institutionalized by the G3 free trade agreement in 1994. At the same time, from 2005 to 2008 Mexican exports to Brazil almost quadrupled. Argentina became the third export partner for Mexico as Mexican exports to Argentina doubled, exceeding one billion USD (1,318.8 million USD). In 2008 the rate of Mexican exports to the MERCOSUR reached 2.5% of the total Mexican exports. Table 2. shows the share of the

MECOSUR member states in Mexican exports.

Table 2: Mexican exports rate to the MERCOSUR by country (2008).

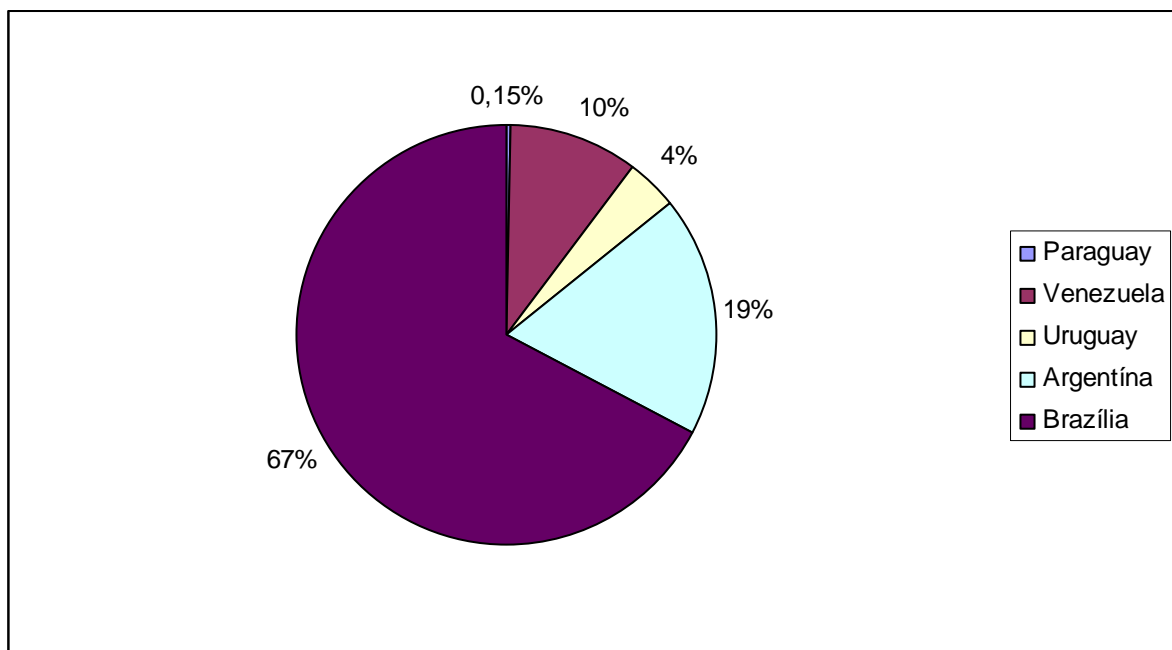
Data source: The website of the Secretary of Trade and Industrial Development (Secretaría de Comercio y Fomento Industrial de México, 2009).



In spite of the 50% fall caused by the “Tequila effect” (financial crisis) in 1994/95, the volume of Mexican imports from the MERCOSUR quintupled between 1994 and 2008. Regarding the volume of imports, Brazil turned out to be the main partner of Mexico (5 191 million USD in 2008), just like in the case of Mexican exports during the analyzed period Brazil was the first partner too. The second most important market for Mexican imports was Argentina (1 437 million USD, the third was Venezuela (768 million USD). In 1994 the total volume of Mexican imports from the MERCOSUR shared only 2% in the total Mexican imports. This rate increased by only 0.5% by 2008. The Table 3. shows the share of the MERCOSUR (by countries) in Mexican imports in 2008.

Table 3: The Mexican import from MERCOSUR by countries in percentage (2008).

Data source: The website of Secretaría de Comercio y Fomento Industrial de México (2009).



Trade volumes between Mexico and the MERCOSUR increased constantly from 1996 and even more dynamically after 2000. The volume of the trade almost quintupled between 2000 and 2008. Within the MERCOSUR the most important trade partners of Mexico in 2008 were the following: Brazil (8562 million USD), Venezuela (3082 million USD) and Argentina (2755 million USD).

#### **4.5. The relations between the MERCOSUR and the ALCA (Free Trade Area of the Americas)**

In 2003 two different concepts of ALCA were born. The first one visualized a general agreement on minimum bases and requirements, The second one promoted bilateral and multilateral agreements with complementary obligations and benefits for each country in accordance with their different potentials and level of development. The birth of these two concepts indicated a new approach in the WTO regarding the “sensitive” issues. The purpose of the USA was to establish trade relations on the basis of competition with the countries which were willing to pay the costs of entering the market of the USA. This is the reason why the USA has changed the former uniform ALCA concept into a multistage system of negotiations, creating the so-called “two-speed” ALCA.

At the end of 2005 the concept of the ALCA failed completely in Mar del Plata, Argentina. More specifically, the MERCOSUR member countries did not sign the draft of the new ALCA designed by the USA. Among the proposed regulations they did not support, for instance, the ones regarding agricultural subsidies or the system of governmental purchase of agricultural products. Venezuela criticized the concept even more harshly. Finally, the four MERCOSUR member states and Venezuela rejected the draft of the ALCA together, although several South American countries like Chile, Columbia and Peru supported this traditional approach of free trade. These countries concluded free trade agreements with the USA, which meant that, although the new ALCA had turned out to be unsuccessful, the idea and the practice of free trade spread from the USA to some Latin American countries.

The concept of the “two-speed” ALCA also failed. The new bilateral and multilateral agreements initiated by the USA intensified a tendency putting pressure on Brazil in the ALCA. This tendency did not remain without reaction in the economic and political spheres of the MERCOSUR. Finally, the MERCOSUR countries forbade that the developed North American countries force them into expensive rules of inversions or of negotiations with public institutions and organizations. They were hoping to slow down the intensification of the developing asymmetry between North and South by this resistance.

The preferential agreements between North and South were elaborated by “northern” experts in a way that left the topics which were sensitive for the developed countries (for instance, the system of agricultural subsidies) excluded from them. These types of conditions were fully acceptable for some developing countries, but for others they still cause serious difficulties. The main differences between the USA and the MERCOSUR in their visions of ALCA can be observed exactly in these issued, more specifically on the following topics:

- Dumping and the agricultural subsidies
- Animal health control; protection of competition
- Opening the service sector
- Protection of intellectual properties.

Brazil and Argentina do not entirely oppose the ALCA initiative but they emphasize that it is necessary to realize real free trade among the member states. These two countries also stress that the US government must stop subsidizing the agriculture so that the agricultural products arriving from the MERCOSUR counties can become competitive on the market of the USA. If the ALCA came into effect, the MERCOSUR countries would receive much less direct inversion and even the trade among the MERCOSUR member states would decrease because a number of USA products

would be more competitive on the MERCOSUR market than the locally produced goods of the same nature. The ALCA would affect especially the position of Argentina and Brazil.

The failure of the ALCA raised the question whether this trade block of 34 participant countries and 800 million inhabitants (of which 600 million in Latin America) can be created. The ALCA would give 38% of the total production of the world economy, 23% of global exports and 25% of the entire service sector. At the same time, it is worth mentioning that 71% of total economic production of the ALCA would be realized by the USA, and this number reveals why this superpower is so motivated in the creation of a free trade zone including the whole American continent (see also the *Monroe Doctrine*). The USA intends to enter new markets for its products as soon as possible and to inspire investments. However, it is clear that the development could not be balanced within a free trade zone like that as the consumer capacities are very different in the different countries. Therefore, the ALCA would be nothing else but a puppet for the USA which would help it in achieving further advantages in Latin America over the other economic centers of the World (Japan, North America and Western Europe).

According to RAPOPORT-MUSACCHIO (2006) the economic and trade dilemma of the MERCOSUR countries during the first years of new millennium is whether to continue the integration process started with the MERCOSUR and so to realize of a certain level of regional autonomy or to become “the provinces of the empire (USA)” one by one. The reference to the ALCA is obvious.

#### **4.6. The dialog of the MERCOSUR with Central America and the Caribbean region**

##### **4.6.1. Central America**

The secretaries of state of the member states of the MERCOSUR and the SICA (Central American Integration System) met twice in 2004. At the first talks the secretaries of state agreed to tighten the trade relations between the two organizations and to deepen their traditional friendship. The MERCOSUR delegation proposed the earliest possible start of talks with the purpose of realizing a free trade zone between the negotiating parties.

In 2005 Panama confirmed its intentions to sign a free trade agreement with the MERCOSUR and to become an associate member of the MERCOSUR.

Four years later the free trade zone was still a potential project, therefore, the Guatemalan and the Brazilian secretaries of state (Brazil is an observer country in the SICA) agreed in trying to promote the realization of the free trade zone between the two zones. Since then no concrete steps have been taken.

##### **4.6.2. The Caribbean region**

The first meeting between the delegates of the MERCOSUR and the Caribbean Community (CARICOM) was held with the purpose of stimulating the dialog on political and economic issues in December 2004. At this summit the parties proposed a schedule of talks to be started in the first half of 2005. Their ultimate aim was to realize a free trade zone between the two organizations.

The MERCOSUR intended to realize a two rounds of negotiations with both the CARICOM (and the SICA too) in order to expand its trade relations into the entire Latin America. The delegates of the CARICOM and the MERCOSUR agreed in imposing special tariffs on “sensitive products” by both parties.

Still in February 2005, at the 16th Summit of the CARICOM (Paramaribo, Suriname) the Brazilian President *Lula da Silva* invited the Caribbean countries to join the MERCOSUR. In *Lula da Silva*’s opinion the integration of two regions started when of Guyana and Suriname were admitted to the SACN (South American Community of Nations), the former UNASUR, and the signing of free trade agreement between the two organizations will be the next important step on



this way. Among the CARICOM countries the integration of the two blocks offers the best perspective for Trinidad and Tobago not only for its geographical proximity but also for its reserves of petroleum.

## 5. Conclusions

At the end of this study I can summarize the conclusions of my investigation as follows:

The Latin American economic integration processes and trade agreements do not form fixed economic organizations without any changes but relations in permanent alteration. These agreements must always be interpreted in the context of the political and economic changes in the world and in the American continent. The MERCOSUR is not an exception with its almost twenty years of history and changes, difficulties and success. With this approach BALASSA's (1990) idea of the "process character" of economic integration is supported. From this point of view the Southern Common Market is a series of actions intending to abolish the discrimination between the economic sectors of the different member states, so it is a process (STEIGER, 1993).

In this process quite a lot of problems among the MERCOSUR member states have still remained unsolved. According to BALASSA's terminology these "problems" are different forms of discrimination. The first (and probably the most important) one of them is the question of asymmetries within the MERCOSUR. This phenomenon has not appeared recently but is historically present in Latin America. Even Béla Kádár mentions it in his remarkable book of 1977. In fact, Paraguay and Uruguay are constantly protesting against their unequal treatment (discrimination) in the MERCOSUR. The unequal treatment does not mean the differences due to the different size of economies in the different member states only but also the problem of the structure of the products exported and imported, the opportunities of smaller countries to introduce their products to the market of other member states, etc. These issues are still experienced in spite of the efforts made to minimize the differences in an institutionalized way, i.e. by the creation of the FOCEM (Structural Convergence Fund of MERCOSUR) in 2003. Therefore, we can come to the conclusion that although the member states have been making serious efforts to counterbalance or extinguish the asymmetries within the organization in the last two decades, this problem is still determining the relations among them. So my hypothesis (b.) drawn up at the beginning of this thesis can be confirmed only to a certain extent. The MERCOSUR plays a limited stabilizing role in the economic relations of the countries in the region.

Another problem is the low degree of economic integration among the MERCOSUR member states. Against the achievements of the organization, the trade among the participant countries shared only 15% of their total foreign trade in 2008 while the rate of trade with third countries went up to 85%. These rates confirm my hypothesis (a.), i.e. that the degree of integration within the MERCOSUR remains below the degree of integration among developed countries during the analyzed period (2002-2008). However, there was a minor increase in the proportion of trade within the MERCOSUR (1.5%) and a decrease in the proportion of trade with other countries (86.5%) in 2008. According to the analysis of WTO INTERNATIONAL TRADE STATISTICS (2008), the degree of integration among developed countries (e.g. the NAFTA and the EU) is exceeded that among the MERCOSUR member states, i.e. the 15% of internal trade. Especially the EU, "a model for integration" indicates excellent results: 68% of its total trade was realized among the member states and only 32% with other countries.

These rates reveal the degree of integration among the countries participating in the specific international regional process. In his classical work KÁDÁR (1977) also referred to the rates of internal and external trade as reliable indices to characterize the degree of integration among Latin American countries during the 70s. This approach also support the conclusion that the 15% of internal trade in the MERCOSUR (2008) indicates still very loose integration among the member states 18 years after signing the Treaty of Asunción.

Several reasons could be mentioned why the internal trade of the MERCOSUR is still so weak. Among them two seems to need to be emphasized. One of them is the effect of "historical heritage",

in other words, the countries participating in the MERCOSUR still maintain more intensive economic and trade relations with the former colonial centers and some of the most developed European countries and other developed parts of the world (for instance the USA, China or Japan) than with each other. The other is that the structure of the economy and the production in the member states of the MERCOSUR is very similar (especially in agriculture), therefore, they do not produce goods to be exchanged among themselves, and meanwhile, they become motivated to enter in the markets of developed countries.

In spite of the above mentioned difficulties the integration process within the MERCOSUR has created new economic and social alternatives for some South American and Latin American countries in the last twenty years. Meanwhile, the size of the territory covered by the MERCOSUR countries increased to almost 13 million km<sup>2</sup> when Venezuela became a member. This geographical expansion together with the economic and social development raise some very interesting questions in the field of social geography and the geography of integration. The first one is how the MERCOSUR affects the integration processes on the continent as the UNASUR, which includes the MERCOSUR, the CAN, Chile, Guyana and Suriname, is focused rather on South America than Latin America. In other words, the ALALC project which failed some decades ago is now being realized by the UNASUR, which includes the MERCOSUR. This way the focus of integration is shifted from Latin America (21 million km<sup>2</sup>, almost 600 million inhabitants) to South America (17.7 million km<sup>2</sup>, almost 400 million inhabitants). Thus my hypotheses (c.) and (d.) seem to be verified. On the one hand, the Latin American space of integration is narrowing to South America. Even the relations between the CARICOM and the MERCOSUR and the SICA and the MERCOSUR seem to be rather loose. On the other hand, the rivalry between Mexico and Brazil works against Latin American integration, too.

Another important dilemma affecting whole American continent is expressed in the dialog between the ALCA and the MERCOSUR. The MERCOSUR clearly expressed its intention to continue the negotiations about the ALCA, and also its doubts regarding the creation of such a huge free trade area. On the one hand, the MERCOSUR member states agree that the ALCA might have positive economic effect on South American countries (for example, the improvement of employment rates), it might also help the fight against poverty and strengthen the practice of democratic governance. On the other hand, the MERCOSUR countries find the conditions unsuitable for the realization of a balanced and fair ALCA for all member states. However, the Declaration of Asunción (2005) states the following in connection with the trade relations with Latin American countries and Canada:

*"...there is one common goal of these negotiations: they try to broaden the free trade relations that have a very close correspondence with the objectives of ALCA. So thus the MERCOSUR persist in the realization of bilateral relations with all countries of the Americas with the purpose of enter their markets and at the same time contribute to general development of the process of ALCA..."* (MELLADO, 2007, p 46)

In spite of the above cited statement, the resistance of the MERCOSUR has been one of the reasons for the failure of the ALCA. This fact also confirms my hypothesis (b.).

Against all former and actual problems the Southern Common Market has become the most important economic integration organization in Latin America in the last twenty years. Its effects are experienced in the geography of integration in Latin America as well as in the economic and social development of the region. The territory of the Southern Common Market has reached almost 13 million km<sup>2</sup> with, 275.5 million inhabitants by now, producing more than 3 000 billion USD of GDP. Although the MERCOSUR has gone through significant development since its foundation in 1991 and has become a very important economic integration organization, its level of development still remains far below the level of the economic centers of the world. The MERCOSUR has become a determinant factor on the whole American continent but its future development will quite probably be determined by global economic tendencies. This development is now (and has been since the World War II) determined by its relations with the economic centers of the world. At the same time, it seems that, just a uniform Latin American economic integration will not work within

the actual world economic system. Yet, partial integration can be realized in the region. In a process like that the MERCOSUR may play a very important role. We will see in the near future if this partial integration of Latin American countries works or fails.

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